

Arizona Public School Credit Eligibility Board

October 18, 2017

1 Office of the Governor



Approval of August 3, 2017 Minutes

2 Office of the Governor



Staff Reports

3 Office of the Governor



A.R.S. § 15-2158 requires the Arizona School Facilities Board staff to submit, within 30 days after the last day of each calendar quarter, a quarterly report on the implementation of the Arizona Public School Credit Enhancement Program.

Included in this report are:

- The name of the public school or charter by or on behalf of which the debt obligation was issued.
- The date of the issuance.
- The original amount of the issuance.
- The interest rate of the issuance.
- The term length of the issuance.
- The credit rating of the issuance.
- The amount of principal and interest due on the debt obligation in the current fiscal year.
- The purpose for which the debt obligation was issued, separately delineated for obligations to construct new capital facilities, renovate existing capital facilities or refinance existing debt obligations.
- The current outstanding principal of the debt obligation.
- A listing of all guaranteed financings subject to section 15-2156 in the prior quarter, including the amounts disbursed for payment of principal and interest for the financings and the terms and conditions to which the school is subject.
- The current balance of the Arizona Public School Credit Enhancement Fund.
- The current program leverage ratio.

Quarterly Report – Q3 2017



**Arizona Public School Credit Enhancement Program
Quarterly Report - 9/30/2017**

Guaranteed Financings Outstanding or Approved

Applicant/Borrower	Date Approved	Approved Amount	Date Issued	Description	Guaranteed Amount Issued	Maturity Dates	Interest Rates	Underlying Credit Rating	Enhanced Credit Rating	Principal and Interest Due in FY 2018	Use of Proceeds	Principal Outstanding
Academy of Math and Science	4/25/2017	\$24,808,821	7/6/2017	Series 2017A	\$23,465,000	2018 - 2052	4% - 5%	BB	AA-	\$565,250	New construction and refinancing	\$23,465,000
Arizona Agribusiness and Equine Center ¹	4/25/2017	\$16,968,531									New construction	
Great Hearts	6/1/2017	\$35,970,811	7/13/2017	Series 2017A and Series 2017B	\$34,240,000	2018 - 2052	2% - 5%	BBB-	AA-	\$672,893	New construction and refinancing	\$34,240,000
BASIS ²	8/3/2017	\$53,344,683									New construction	
Total		\$131,092,846			\$57,705,000							\$57,705,000

¹The applicant has submitted a new application for review on 10/18/2017 because the applicant will not be able to issue guaranteed bonds before this approval expires.

²Financing had been approved, but not yet issued as of 9/30/2017. BASIS issued \$3,830,000 guaranteed bonds on 10/18/2017.

Fund Balance and Statutory Ratios

Total Principal Amount of Outstanding Guaranteed Financings	Enhancement Fund Balance	Leverage Ratio (maximum 3.5:1)	Total Principal with Underlying Rating Lower Than BB-	% of Guaranteed Principal with Underlying Rating Lower Than BB-
\$57,705,000	\$104,545,246	0.55	\$0	0%

As of 9/30/2017, there are no guaranteed financings for which the program has been required to disburse funds to pay principal and interest.

Quarterly Report – Q3 2017



Quarterly Reports to Date

Calendar Year 2016 (Q3) – No transaction activity

Calendar Year 2016 (Q4) – No transaction activity

Calendar Year 2017 (Q1) – No transaction activity

Calendar Year 2017 (Q2) – Submitted July 31, 2017

Calendar Year 2017 (Q3) – Report Due October 31,
2017

Quarterly Report – Q3 2017





Basis Schools Inc. Closing Update

Review and Action of Application #5

American Leadership Academy



American Leadership Academy

\$55 million in new debt that will be used to purchase existing, currently-leased facilities and expand capacity.

Total Request



American Leadership Academy

- Expand capacity by 840 students
- \$55 million in new debt to purchase existing K-6 and 7-12 Queen Creek campuses
 - Construct a new building that will include 24 classrooms
 - Renovate and expand existing facilities to provide space for STEM programs, electives, and extracurricular activities

Impact of Proposed Financing



Requirement	American Leadership Academy
Assigned a letter grade of A, or an equivalent successor classification	Verified
Proven instructional strategies and curricula that demonstrate high academic outcomes	Materials Provided
Verifiable enrollment demand, including the placement of prospective pupils on a waiting list	Attestation
Sound financial plan that contemplates operational costs and future enrollment growth	Financial Documents
Commitment to provide technical assistance to an underperforming school	Letter Submitted

Achievement District Qualification



American Leadership Academy

- ALA meets the Board criteria for conditional approval for credit enhancement
- Underlying credit rating of low BB or high B range is expected to be assigned to the proposed financing

Eligibility for Credit Enhancement



American Leadership Academy

- If approved as submitted, approximately 16% of the program's total capacity will be used to enhance the financing
- The program would remain in compliance with the maximum program leverage and credit rating ratios

Impact on Credit Enhancement Program



American Leadership Academy

The Board has the following two options regarding ALA's application as an Achievement District School:

1. Approval as an Achievement District School (**Staff recommendation**).
2. Denial of the application to qualify as an Achievement District School.

If the Board does not approve the Achievement District application, ALA is not eligible for the Public School Credit Enhancement Program. If the Board approves the application, the following three options are available for the Board to consider:

1. Approval of credit enhancement for the full amount of the proposed financing of \$55 million.
2. Approval of credit enhancement for an amount that is less than the full amount of the proposed financing.
3. Denial of credit enhancement for any portion of the proposed financing.

Recommendation



The background of the entire image is a stylized American flag, featuring white stars on a blue field and red and white stripes.

AMERICAN LEADERSHIP ACADEMY

OUR VISION:

LEARN.

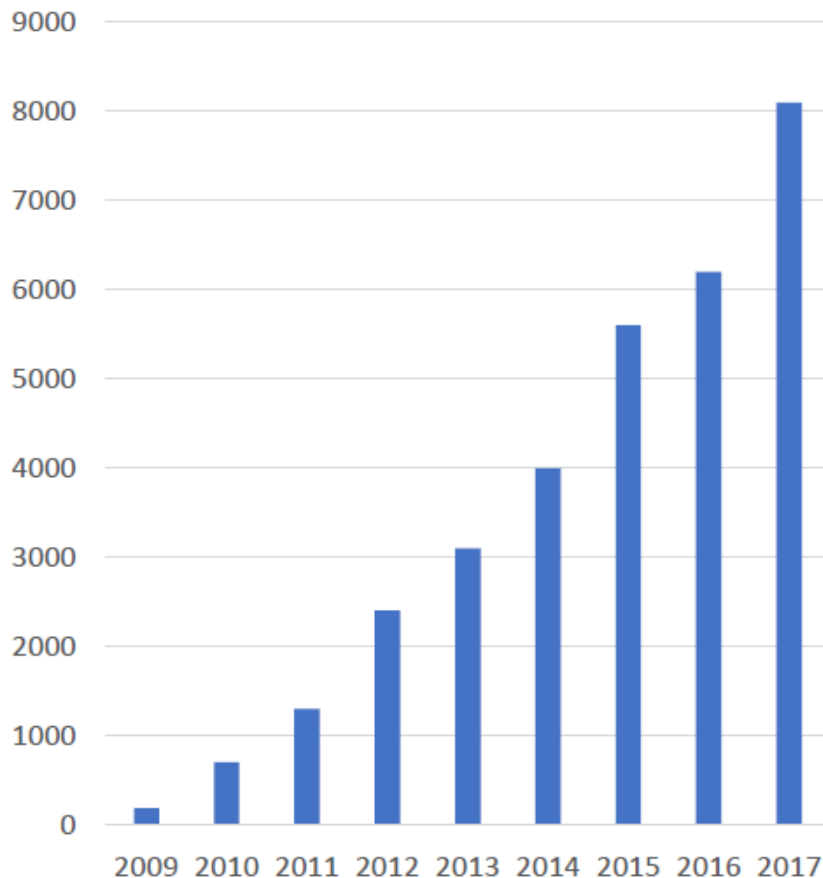
LEAD.

CHANGE THE WORLD!

The History of ALA



Students



SCHOOLS

- 2009 – Inaugural Year: Gilbert K-12
- 2011 – Added San Tan Valley K-8
- 2012 – Added Queen Creek K-12, Mesa K-6
- 2014 – Anthem K-6
- 2015 – Ironwood K-12
- 2016 – Expand Ironwood and San Tan Campuses
- 2017 – Gilbert North K-12, Signal Butte K-6, Gilbert South K-6

2017 ARIZONA STATISTICS

- 8,100 students
- 3,000 student waitlist
- 1,000 teachers & staff

ALA = Full School Experience (Achievements)



Academics

- “A” rated school system
- Top 5% of all AZ schools (2014)
- 240 graduates earned \$4.9 million in scholarship awards (2017)

Sports

- 2017 State Championships: AIA Div 3 Football, AIA Div 3 Girls Cross Country, Jr. High Co-ed Soccer, CAA Football, Boys CAA Track & Field, Girls CAA Track & Field

Arts

- National Champions Ball Room Dance, 3 years running (2017)

Science

- Robotics World Championship Participant (2017)



2017 Bond: Project Scope

Credit Enhanced

QUEEN CREEK K-12

- **Purchase / Refinance Facilities**
- **Purchase adjacent properties**
- **New construction**
- **Total: \$55 million**

GILBERT K-6

- Purchase / Refinance Facilities
- Total: \$13.2 million

GILBERT NORTH K-12

- Purchase / Refinance Facilities
- Total: \$62.5 million

IRONWOOD K-12

- Purchase / Refinance Facilities
- Total: \$45.2 million

Credit Enhanced Project



PURPOSE OF FUNDS

- Queen Creek Project
 - Refinance existing facilities
 - Purchase adjacent properties for expansion
 - Convert existing space to classrooms and construct new facilities to accommodate approximately 930 wait-listed students

PROJECT BENEFITS

- Directly adds approximately 930 seats to Queen Creek Campus
- Debt service at historically low rates allows for more dollars to classroom
- Enhances entire 2017 Bond issue

Questions / Comments



Review and Action of Application #6 Great Hearts Academy



GreatHearts Academy

- \$19.5 million in new debt to be used to acquire, renovate, and equip new school facilities to increase enrollment capacity

Total Request



GreatHearts Academy

- Expand student capacity at Archway Scottsdale by 458 students
- Increasing the total capacity at Archway Scottsdale for grades K-5 to 1,008 in 2018-2019 from 550 in 2017-2018
- \$19.5 million of new debt will be used to acquire, renovate, improve, and equip 9.56 acres of land, adjacent to Great Hearts' Scottsdale Prep site
- Project will include athletic fields for Scottsdale Prep, which currently does not have a home field for football or soccer.

Impact of Proposed Financing



GreatHearts Academy

- GreatHearts was approved as an Achievement District school in June 2017.
- Currently, GreatHearts has \$34.2 million of outstanding bonds that are guaranteed by the Arizona Public School Credit Enhancement Program.

Achievement District Qualification



GreatHearts Academy

- GreatHearts meets the Board criteria for conditional approval for credit enhancement
- Underlying credit rating of BBB-

Eligibility for Credit Enhancement



GreatHearts Academy

- If approved as submitted, approximately 6% of the program's total capacity will be used to enhance this financing.
- Approximately 15% of the program's total capacity will be used to enhance Great Hearts financings
- The program would remain in compliance with the maximum program leverage ratio

Impact on Credit Enhancement Program



GreatHearts Academy

The following three options are available for the Board to consider regarding GreatHearts's application to the Public School Credit Enhancement Program:

1. Approval of credit enhancement for the full amount of the proposed financing of \$19.5 million.
2. Approval of credit enhancement for an amount that is less than the full amount the proposed financing
3. Denial of credit enhancement for any portion of the proposed financing.

Recommendation





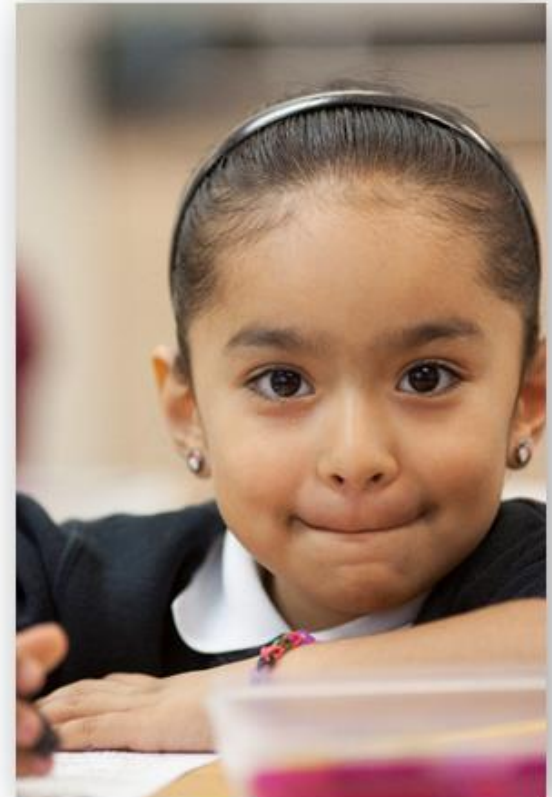
Our Core Purpose:

To cultivate the minds and hearts of students through the pursuit of Truth, Goodness, and Beauty



About Great Hearts

- Founded in 2004 as non-profit 501(c) 3 corp.
- Driven by a passion to improve education
- Operating classical preparatory K-12 charter schools
- Presently 22 schools in Arizona
- 1,281 full time employees including teachers, TA's, Headmasters, and support staff
- Student population - approximately 12,550
- Wait list has approximately 10,600 students
- Our schools consistently rank in the top 10% for academic achievement
- Continue to add new high quality seats
- Great Hearts credit rating BBB- from S&P



GreatHearts Scottsdale Schools

	<u>Archway Scottsdale</u>	<u>Scottsdale Prep</u>
• First Year of Operation	2011	2008
• Grades Served today	K-4	5-12
• Enrollment	407	868
• Applications Received for 2017-18 School Year	1,299	984
• Current Waitlist	977	566
After the move to the new location:		
• Grades served	K-5	6-12
• Target Enrollment	840 to 1008	775 to 880

Request Cr Enhancement Approval for GH 2017 Series C & D Bonds

- **Use of Guaranteed Financing**
- The Borrower is requesting enhancement for \$19.5 million in Education Revenue Bonds. The Borrower will use the proceeds of the bond-loan to finance the cost of acquiring, renovating, improving and equipping, as applicable, approximately 9.56 acres of land and improvements located at 16648 N. 94th Street, Scottsdale, AZ 85260.
- **Archway Scottsdale Campus - \$19.5 million**
- This new campus will allow Archway Scottsdale to grow to serve 1,008 students in grades K–5.
- Archway Scottsdale opened its doors in August, 2011 with the mission to bring a Great Hearts elementary education to the families of N. Scottsdale. Due to high property values in the area and limited inventory, the school has only been able to operate in a smaller commercial building in the Scottsdale Airpark. This has meant that the full expression of the GreatHearts elementary model has not been able to fully flourish in Scottsdale. Currently, we only serve students in a two section K-4 model in Scottsdale. This has resulted in housing our 5th grade at our current upper school site, Scottsdale Prep, which is less than ideal for the schools culture and the student curriculum.
- In addition to this, our upper school has also suffered due to land restraints from having the full athletic expression most of our other academies are afforded. In its 10 year history, the students of Scottsdale Prep have never had a home field for football and soccer.
- The nearly 10 acres adjacent to our current Scottsdale Prep site solves not only the elementary model deficiencies our current site creates, but solves the athletic field gap as well. It affords the families of Scottsdale a K-12 home that allows for the full GreatHearts program to flourish for many generations to come.

Request Cr Enhancement Approval for GH 2017 Series C & D Bonds

Our Plan

Archway Scottsdale Campus – The subject property comprises a 45,000 square foot office building and a 100,000 square foot warehouse adjacent to our present Scottsdale Prep campus.

The 45,000 square foot office building will be renovated to incorporate student classrooms and administrative offices. We will remove approximately 50,000 square feet of the warehouse (on the western end) and convert the area to a sports field. We will use the remaining space in the warehouse to construct a gym, a multipurpose room, special-use rooms, and other sports related courts such as tennis and volleyball.



Mineral Springs – The Property





2,260 feet
2,260 feet
On-Site Queue Storage 4,520 feet

 17' improved air movement design 100% air volume, 40' high, 10' x 10' 100% air volume, 40' high, 10' x 10' 100% air volume, 40' high, 10' x 10' 100% air volume, 40' high, 10' x 10'	
PROJECT NO. 171008	DRAWN BY TG
DATE SEPT 2017	CHECKED BY JB

On-Site
Queue Storage

Figure 1

How will this Project and the Bond Issue help Arizona?

- Overall, adding approximately 600 new high quality classroom seats.
- Helps reduce our waiting list and strengthens Arizona's education system.
- Allows us to create an AIA Sports Field adjacent to Scottsdale Prep.
- Helps us improve the traffic flow at our Scottsdale Prep site.
- Credit enhancement will have a direct benefit to 2 schools and an indirect benefit to 17 additional schools. Likewise, the credit strength of these 19 schools will help support the "AA-" rating of the Credit Enhancement Program.



GreatHearts®

Thank You!



Review and Action of Application #7

Arizona Agribusiness and Equine Center



Agribusiness and Equine Center

\$17 million will be used to establish a new campus in Mesa and to expand the Estrella Mountain campus in Avondale to increase enrollment capacity

Total Request



Agribusiness and Equine Center

- Expand capacity by 560 students
- \$7.5 million will be used to build the new campus in Mesa
 - Includes purchasing & renovating an existing building to accommodate 17 classrooms, 2 labs, and related facilities
 - Mesa campus will serve about 260 students
- \$9.4 million will be used to expand the Estrella Mountain campus
 - Will accommodate an additional 300 students

Impact of Proposed Financing



Agribusiness and Equine Center

- AAEC was approved as an Achievement District school and was previously approved to credit enhancement in April 2017, but has not yet issued bonds that are guaranteed by the Arizona Public School Credit Enhancement Program.

Achievement District Qualification



Agribusiness and Equine Center

- AAEC meets the Board criteria for conditional approval for credit enhancement
- Compliance with the Terms and Conditions Agreement and Reimbursement Agreement will ensure that all program requirements are met.
- Underlying credit rating of BB+

Eligibility for Credit Enhancement



Agribusiness and Equine Center

- If approved as submitted, approximately 5% of the program's total capacity will be used to enhance this financing.
- The program would remain in compliance with the maximum program leverage ratio

Impact on Credit Enhancement Program



Agribusiness and Equine Center

The following three options are available for the Board to consider regarding AAEC's application to the Public School Credit Enhancement Program:

1. Approval of credit enhancement for the full amount of the proposed financing of \$17 million.
2. Approval of credit enhancement for an amount that is less than the full amount the proposed financing
3. Denial of credit enhancement for any portion of the proposed financing.

Recommendation





AAEC Early College High Schools
Enriched Educational Experience

Arizona Agribusiness and Equine Center

New Mesa Campus

&

Estrella Mountain Campus Expansion

Overview of AAEC

- Founded in 1997
- Serves grades 9-12
- Dual enrollment model allows students to achieve transferable college credits through its relationship with local community colleges
- College preparatory with an agribusiness and science emphasis
- 95% Average Graduation Rate
- Presently six campuses in Arizona
- Current student enrollment approximately 1,700
- Average student retention rate of 94%
- Approximately 400 students on the waitlist
- Estrella Mountain campus recently ranked as 4th highest graded high school in Maricopa County
- S&P has affirmed AAEC's BB+ underlying credit rating

\$7.2 million for AAEC's New Mesa Campus

- Will create seats for 280 students.
- Brings a new, high-performing educational facility to a low income community

\$9.8 million for the Expansion of AAEC's Estrella Mountain Campus

- Current Enrollment – 473 students
- Current Waitlist – 170 students
- Will create seats for an additional 270 students

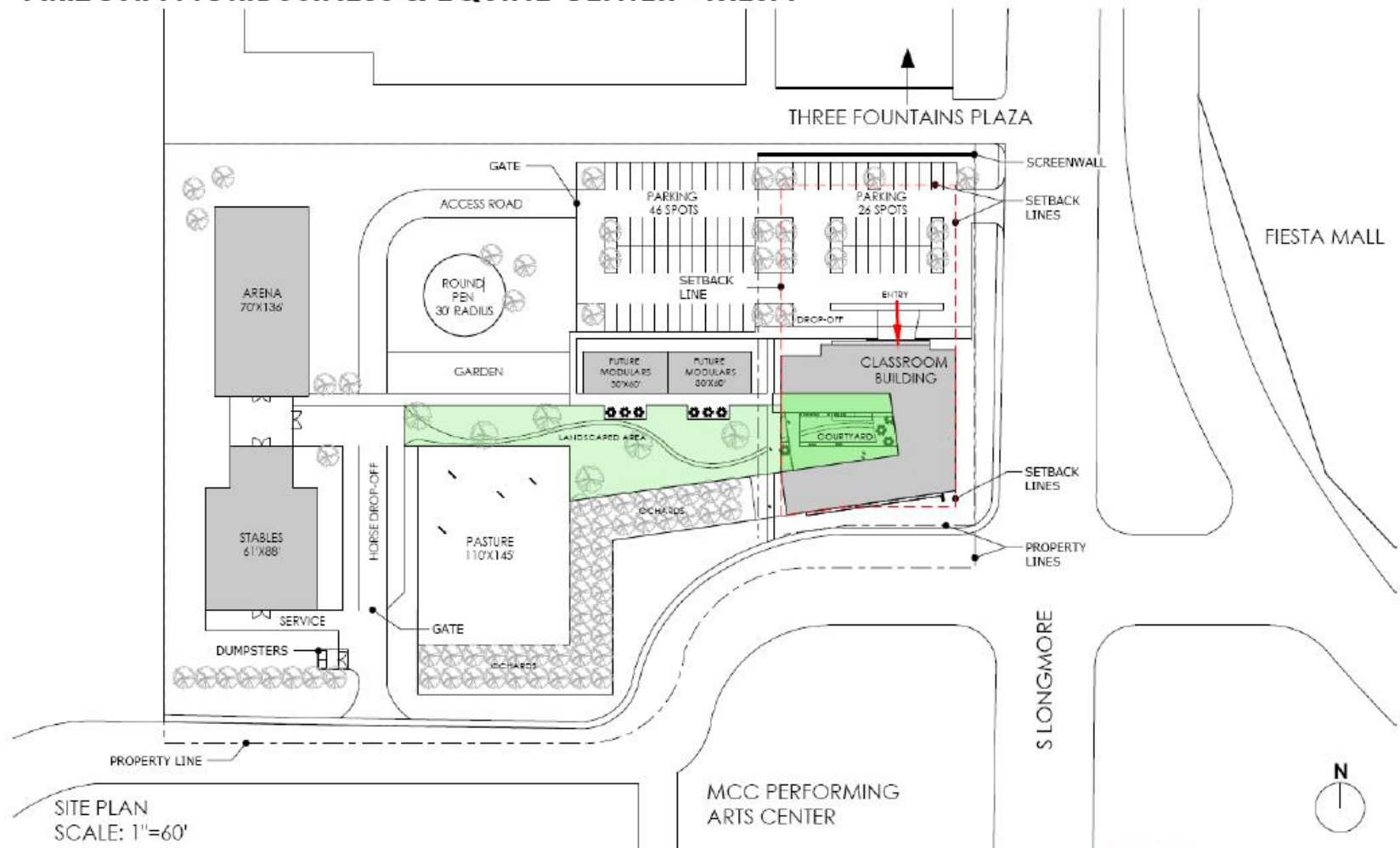
New Mesa Campus Project Update



ARIZONA AGRIBUSINESS & EQUINE CENTER - MESA

New Mesa Campus Project Update

ARIZONA AGRIBUSINESS & EQUINE CENTER - MESA



New Mesa Campus Project Update

- The Mesa Campus is currently operating in leased facilities with an enrollment of 43 students.
- It is AAEC's sixth campus and the new facility will be located in a redevelopment area of downtown Mesa within walking distance of Mesa Community College.
- 5.96 acre site.
- Approximately 5 acres of land will be leased from the Maricopa County Community College District.
- The terms of the ground lease have been finalized and will be approved by the MCCCCD Board on October 24th.
- The facility will include 15,760 square feet of building area in addition to site improvements and an equine area.
- The new facility will feature 10 classrooms, 2 science labs, and 8 administrative & resource rooms.
- Construction will be complete in time for the 2018-19 school year.
- The appraisal has been received.
- The guaranteed maximum price contract is ready to execute.
- The Arizona IDA has given final approval .
- Both the enhanced and underlying ratings have been assigned by S&P.
- Bond documents & the offering statement are 95% complete.

Estrella Mountain Expansion Project Update



Estrella Mountain Expansion Project Update



Estrella Mountain Expansion Project Update



Estrella Mountain Expansion Project Update

- The Estrella Mountain Campus is located in Avondale and began operating in 2010.
- The existing campus features upscale architecture and four separate buildings enclosed with decorative fences that provide a less defined courtyard concept. Each of the four buildings represent a core curriculum area: science, English, mathematics and history and is comprised of 10 classrooms, 2 science labs and 8 administrative and resource rooms and is located within walking distance to Estrella Mountain Community College.
- Estrella Mountain was recently ranked as the 4th highest performing high school in Maricopa County (94%) and received an “A” letter grade rating.
- The expansion will include an approximately 22,000 square foot building on approximately 7.5 acres and will add 14 classrooms, 2 science labs and 5 administrative offices, community and resource rooms, a full equine facility with covered arena, barn and land lab.
- The land purchase contract is currently being finalized.
- The appraisal has been ordered.
- The guaranteed maximum price contract is ready to execute.
- The Arizona IDA has given final approval.
- Both the enhanced and underlying ratings have been assigned by S&P.
- Bond documents & the offering statement are 95% complete.

Type of Debt	Original Amount	Outstanding Amount
Education Revenue Bonds, Series 2011	\$ 14,605,000	\$ 13,940,000
Education Revenue Bonds, Series 2012	8,885,000	8,545,000
Education Refunding Bonds, Series 2015A	7,335,000	7,335,000
Education Refunding Bonds, Series 2015B	265,000	35,000
Bank Loan - 2017	445,200	445,200
Total Amount Outstanding		\$ 30,300,200

AAEC is current on all debt payments and is not in default on any outstanding debt.

Public Comments



Adjourn

